

CEHNC-CD-AN (415-10C)
1997

6 August

MEMORANDUM FOR RECORD

SUBJECT: Contract No. DAAA-09-96-C-0018, Anniston Chemical Agent Disposal Facility (ANCDF), Anniston Army Depot, Alabama; Pre-Negotiation Objectives for Change Case AN-6-018-0032 – “Warehouse Reconfiguration - Phase IV”

SECTION I

PRENEGOTIATION OBJECTIVE SUMMARY

Pricing Structure:

Contract Time:

Direct Costs	\$146,814
Overhead.....	\$3,848
Profit.....	\$7,651
Bond.....	\$116
Total	\$158,429

TIME SUMMARY:

The contract duration is not changed by the subject change case.

Subject change incorporates revisions to storage requirements of GFE, which require temperature, and humidity controlled storage. The revisions will allow for continued storage of the GFE in the Gadsden Warehouse Facility who does not have temperature and humidity controlled space as required for the stored GFE. The change also incorporates corrective action to repair GFE that was damaged by the Government during handling and subsequent storage in the warehouse. The overall cost objective of \$158,429 has been analyzed and represents a fair and reasonable price. **Section III, Cost Analysis**, evaluates the contractor's proposed increased costs for the subject change.

SECTION II

Enclosures:

1. Original Independent Government Estimate approved July 29, 1997.
2. Contractor's Cost Proposal submitted by Serial Letter Nos. WSN-96-00769 & WSN-96-00784.
3. Audit Report No. 4142-97D27000003 dated May 30, 1997.

SECTION III COST ANALYSIS

I. SUMMARY COMPARISON

The chart below compares the contractor's proposal, the IGE, and the pre-negotiation objective for various elements of the proposed costs.

	CONTRACTOR (BNI)	IGE	PRE- NEGOTIATION OBJECTIVE	COMMENTS
LABOR	\$95,688	\$56,643	\$95,688	(a)
MATERIALS	20,022	3,932	20,022	(b)
EQUIPMENT	0	2,849	0	(b)
PER DIEM	2,781	0	0	8
SUBCONTRACT	11,650	1,148	11,650	(d)
BNI Subtotal	\$130,141	\$64,572	\$127,360	
BNI PROFIT	11,844	4,903	8,944	(e)
BNI PROFIT ON SUB	1,165	89	901	(e)
Subtotal	\$143,150	\$69,564	\$137,205	
BNI BOND & INS	2,949	1,433	2,826	
BNI Subtotal	\$146,099	\$70,997	\$140,031	
PROPOSAL PREP	6,422	0	5,419	(f)
TOTAL BNI	\$152,521	\$70,997	\$145,450	
WEC LABOR	877	0	877	(g)
WEC G&A on Sub	4011	1867	3825	
WEC G&A	23	0	23	
PROFIT ON BNI	7626	4044	7273	(I)
PROFIT ON WEC	393	0	378	(I)
WEC Subtotal	\$12,930	\$5,911	\$12,376	
PROPOSAL PREP	487	0	487	(j)
WEC BOND & INS	121	369	116	
WEC Subtotal	\$13,538	\$6,280	\$12,979	
GRAND TOTAL	\$166,059	\$77,277	\$158,429	(k)

Exhibit 7-8*2. PNO Sample from ANCDF

(a) The subcontractor (BNI) has proposed direct labor costs of \$95,688, including overhead and G&A, for 3,765 hours proposed for four employees (Warehouse Supervisor, Millwright GF, Warehouse Maintenance, and Warehouse Clerk) required for execution of the work required by the subject change. The IGE identified direct labor costs of \$56,643, including overhead and G&A, for 1,299 hours associated with two employees. The proposed labor allocation and associated labor costs appear reasonable and will be utilized as the pre-negotiation objective. Therefore, the pre-negotiation objective for labor costs is established as \$95,688 increase.

(b) The subcontractor (BNI) has proposed direct costs of \$20,022, including overhead and G&A, for materials and equipment required for performance of the change case scope of work. The IGE identified direct materials and equipment costs of \$6,781, including overhead and G&A, required for execution of the change case work. The proposed materials and equipment costs appear reasonable and will be utilized as the pre-negotiation objective. Therefore, the pre-negotiation objective for materials and equipment costs is established as \$20,022 increase.

(c) The subcontractor (BNI) has proposed direct costs of \$2,781, including overhead and G&A, for per diem as required for the subject change. The IGE did not include any costs related to per diem for this change case. The government does not anticipate the contractor requiring any personnel other than those who are permanently located onsite to perform the required scope of work. Therefore, the proposed per diem costs are considered unreasonable for this change and should be deleted from the cost proposal. The pre-negotiation objective for per diem costs is established as \$0.00.

(d) The subcontractor (BNI) has proposed direct costs of \$11,650, including overhead and G&A, for subcontractor labor and equipment required to perform the change case work. The IGE identified direct costs of \$1,148, including overhead and G&A, associated with other (subcontract) labor and materials associated with performance of the scope of work for the change. The IGE only have consideration for subcontract equipment and labor costs associated with rotating and re-aligning of the BRA Baghouse equipment for cleaning and prime painting. The contractor proposal was inclusive of costs necessary for accomplishing the change case scope of work required for all GFE to be relocated, leveled, and reconfigured. The contractor's proposed costs are considered reasonable for the change. Therefore, the pre-negotiation objective for subcontractor costs is established as \$11,650 increase.

(e) The subcontractor (BNI) has proposed profit rate of 10% for BNI direct costs and subcontractor costs. The IGE utilized a profit rate of 7.73% for BNI and BNI subcontract work. The proposed rate of 10% on BNI and subcontract work is considered excessive for this change. Therefore, a rate of 7.73% for BNI and BNI subcontract work respectively, will be established as the pre-negotiation objective for profit.

(f) The subcontractor (BNI) has included costs associated with proposal preparation for the subject change. The IGE did not include cost related to proposal preparation. The proposed amounts appear reasonable with the exception of costs associated with ODC (per diem, driving to/from Oakridge). The government does not anticipate the contractor requiring any personnel other than those who are permanently located onsite to perform work associated with preparation of cost proposal for the subject change. Therefore, the proposed costs of \$793, including overhead and G&A, for ODC should be deleted from the cost proposal. Additionally, the subcontractor (BNI) has proposed profit rate of 10% for BNI direct costs related to proposal preparation. As stated in item A(e) above, the IGE utilized a profit rate of 7.73% for BNI and BNI subcontract work. The proposed profit rate of 10% for BNI is considered excessive for this change. Therefore, a profit rate of 7.73% for BNI proposal preparation costs will be established as the pre-negotiation objective. As a result of this analysis, a pre-negotiation objective of \$5,419 increase is established for proposal preparation costs.

(g) The prime contractor (WEC) has proposed direct labor costs of \$877, excluding overheads and G&A, for 16 hours for one employee (System Engineer Mgr.) required for execution of the work required by the subject change. The IGE did not include costs related to prime contractor labor related to the scope of work for the change case. Analysis of the proposed labor associated with the change revealed that the proposed costs are reasonable. Therefore, \$877 increase is established as the pre-negotiation objective for prime contractor direct labor.

(h) The prime contractor proposed a profit rate of 5%, applied to subcontractor costs. The IGE for subject change utilized a profit rate of 5.55%, as established by the weighted guidelines method, to be applied to prime subcontractor costs. The proposed 5% rate is considered reasonable and will be established as the pre-negotiation objective for application to all prime subcontract costs. Additionally, the prime contractor proposed a profit rate of 8% to be applied to prime contractor direct costs. Since the IGE did not include any prime contractor direct labor, materials, or equipment costs, a profit rate for work performed by prime contractor personnel was not developed. Analysis of the contractor's proposed 8% profit rate revealed that it is reasonable for the subject change. Therefore, the proposed profit rate of 5% applied to prime subcontract cost and 8% applied to prime contractor direct labor costs are established as pre-negotiation objectives.

(i) The prime contractor (WEC) has included costs associated with proposal preparation for the subject change. The IGE did not include cost related to cost proposal preparation. The proposed 8 hours labor resulting in a total cost of \$487, which includes overhead and G&A, for a Systems Engineer Mgr. appears reasonable for the subject change case. Therefore, \$487 increase related to costs associated with prime contractor proposal preparation is established as the pre-negotiation objective.

(j) With consideration given to all of the above pre-negotiation objectives, the total negotiation objective for the subject change is to assure that the contractor has a complete understanding of the scope of work and settle for the total cost objective of \$158,429 increase with no increase to the contract duration.

PREPARED BY:

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Exhibit 7-8*2. PNO Sample from ANCDF